



SENATE EDUCATION

EXHIBIT NO. 1

DATE 1/30/13

BILL NO. SB175



## SB 175 Major Themes

- **Funding and flexibility for student achievement:**

- Inflation of .89% and 2.08%
- Data for achievement payment \$20 per ANB
- Basic entitlement per school unit
  - Good for rural schools with increase in first entitlement
  - Good for larger schools with second and subsequent entitlement
- Increased spending authority for districts over maximum because of declining enrollments
- Addresses unusual enrollment increases for rural (4%) and larger (25 student) school districts
- Facilitates advanced learning of students by eliminating seat time penalties for fast learners
- Authority to increase over BASE general fund levy as long as other taxes are reduced

- **Statewide tax relief:**

- Use oil and gas in known amounts to reduce base taxes by \$24 million per year
  - \$24 million reduction based on current oil prices and production
  - If oil price or production falls by 2/3, taxes will still remain \$8 million below the levels they would be without LC 132

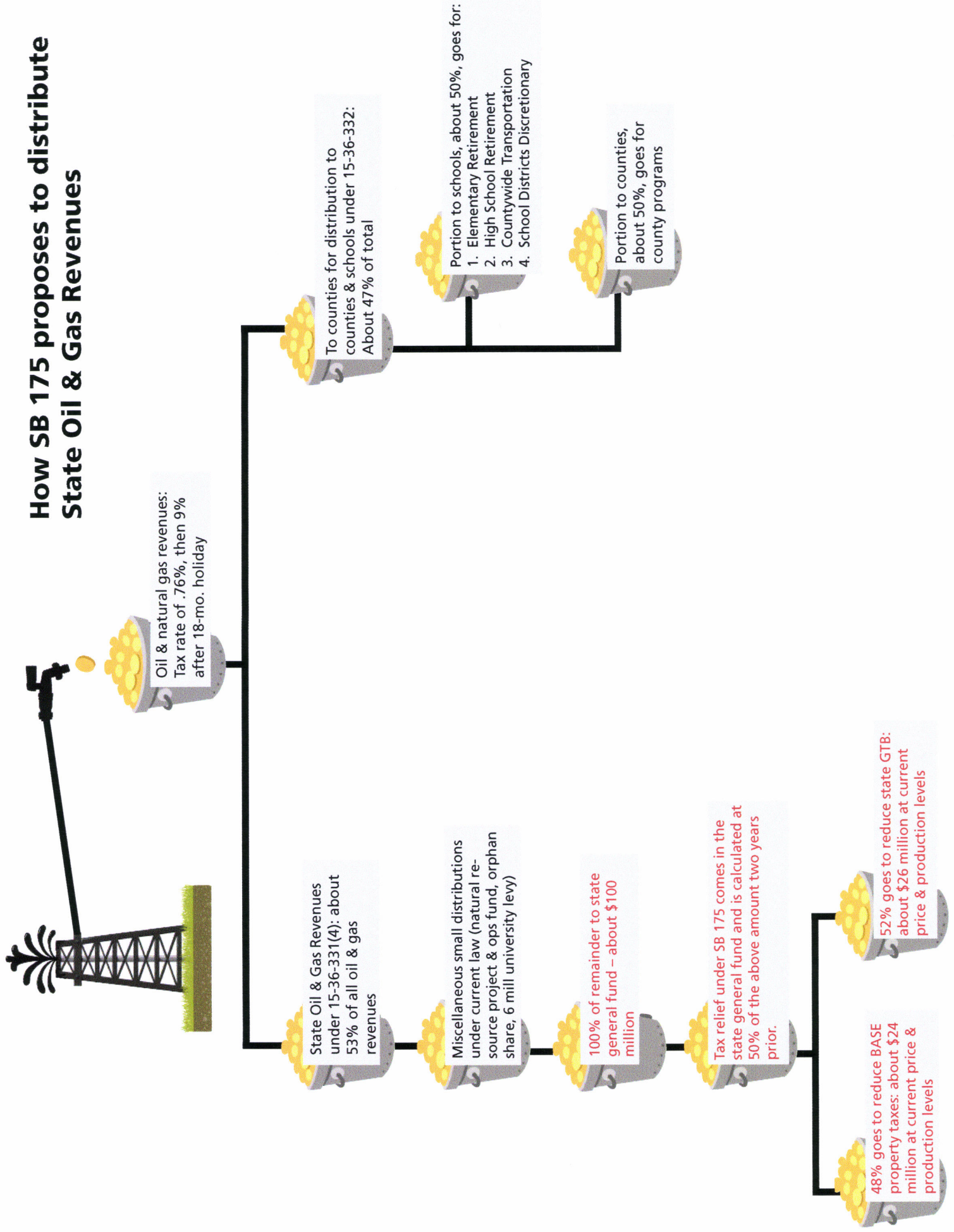
- **Tax relief for oil and gas impacted areas:**

- Re-devotes oil and gas to school districts with oil and gas impacts but without oil and gas revenues to ensure against increases in property taxes in such areas and to allow students to be effectively served in such areas

- **Alignment of natural resource development and school and taxpayer success:**

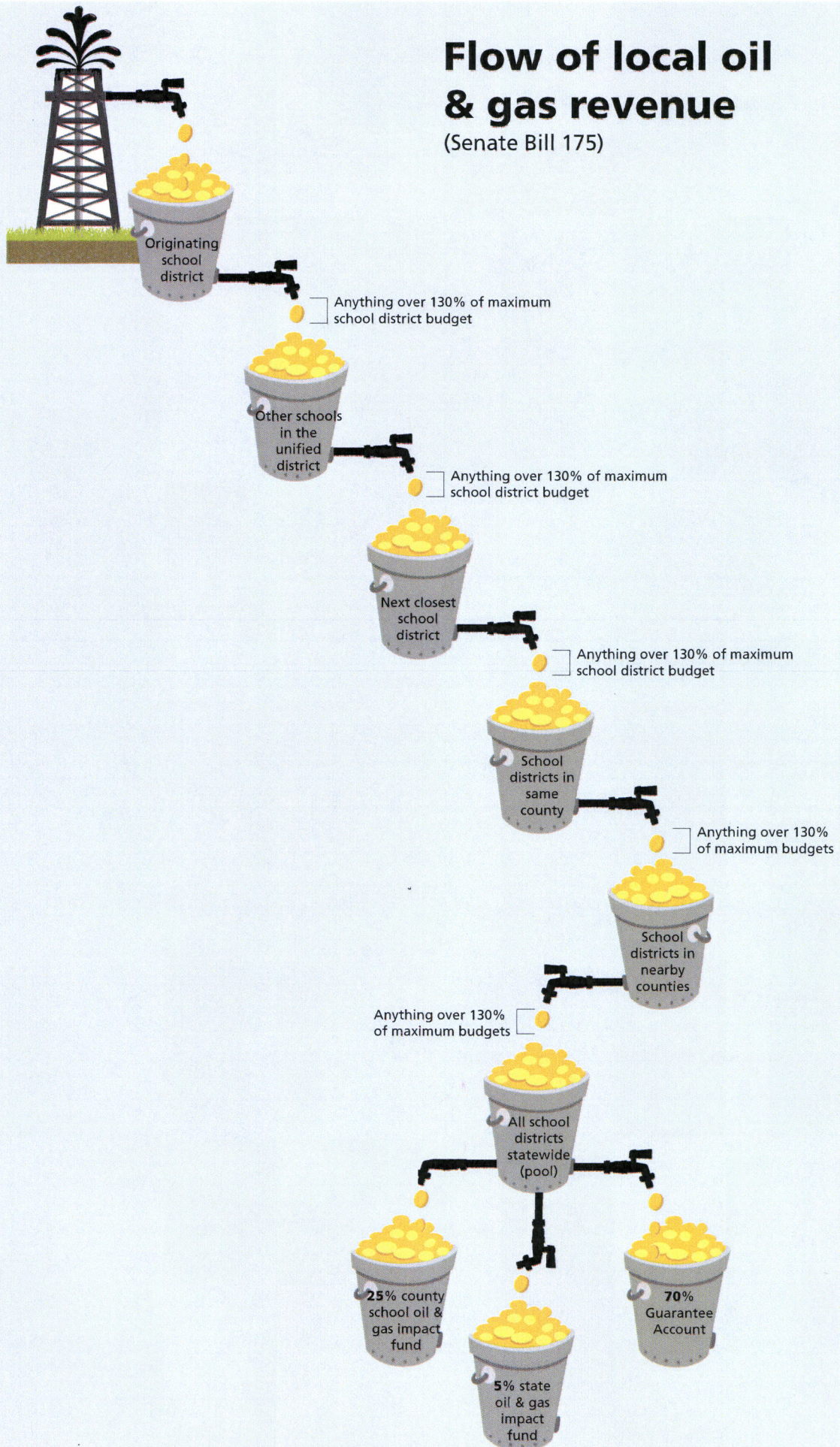
- Excess state land revenues are split 50%-50% for tax relief and school facilities repairs
  - 50% to reduce BASE property taxes
  - 50% to address facilities deficiencies cited in the Department of Administration Facilities Study

# How SB 175 proposes to distribute State Oil & Gas Revenues

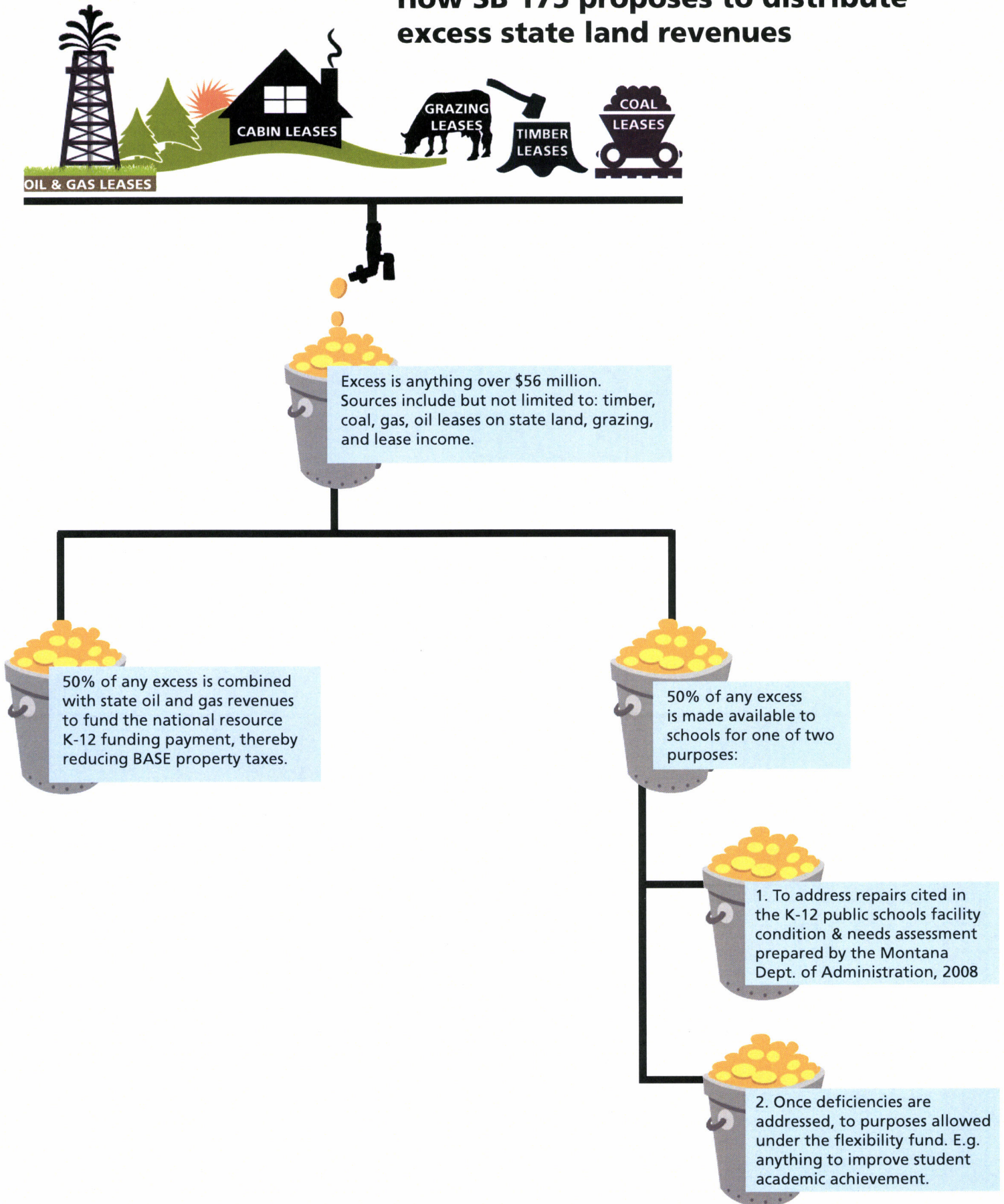


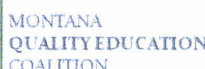
# Flow of local oil & gas revenue

(Senate Bill 175)



## How SB 175 proposes to distribute excess state land revenues





### Sponsor's Amendments on SB 175 – Supported by Proponents for SB 175

The following are brief explanations of amendments that have come up among interested parties and that are supported by Senator Jones and supporters of Senate Bill 175. None of these amendments significantly alter the original premise of the bill and each will help clarify and improve the bill if passed.

1. **SB0175-01** – Amendment that sets the trigger for "excess interest and income revenue" as anything in excess of \$56 million. Any interest and income in excess of this amount will be split 50%-50% for BASE tax relief as part of the Natural Resource K-12 Funding Payment and 50% for school facilities repairs.
2. **SB0175-03** – Amendment to the calculation of inflation for future biennia that applies the inflation-adjustment to all formula entitlements not currently inflation adjusted. This brings the method of calculating inflation for the formula into line with the adopted definition of the basic system of free quality schools, which calls for inflation to be calculated on all general fund entitlements.
3. **SB0175-07** – Amendment to reduce the cost of the bill while maximizing tax relief. This is the amendment where we reduce the fiscal note by \$25 million by improving the way that we use oil and gas revenues for tax relief and eliminating retroactive applicability. We fund tax relief out of the general fund in an amount equal to 50% of state oil and gas revenues from two years prior. By this change, we ensure that the tax relief will start in FY14 rather than in FY15 as introduced (thereby doubling the property tax reduction in this current biennium from \$24 to \$48 million) while avoiding the one time expense to "prime the pump" of tax relief. This amendment was identified as a technical solution to reduce cost of the bill while maximizing tax relief.
4. **SB0175-08** – Amendment to address the concern of the budget office that they were not sure that the Natural Resource K-12 Funding Payment was on top of rather than in lieu of Direct State Aid. It is intended to be on top of Direct State aid and the amendment clearly states that fact.
5. **SB0175-09** - Bond Counsel Dan Semmens of Dorsey and Whitney worked with Senator Jones and those drafting Senate Bill 175 and all of his suggested changes were incorporated in Senate Bill 175 as introduced. After introduction, however, staff at OPI and Mr. Semmens discussed these provisions further and have identified additional amendments that would strengthen these provisions of the bill.



## Montana's Public Schools are Unified in Support of a Legislative Plan for the 2013 Session!

### SB 175 by Senator Llew Jones, Conrad Section by Section Analysis and Integrated Explanation of Sponsor's Amendments

1. SECTION 1: Creates a K-12 Data Task Force with trustees, administrators, tech staff, parents, school business officials and legislators to work with OPI to ensure that the statewide data system can be used by classroom educators, administrators, and parents to collaborate in supporting students' academic needs.
2. SECTION 2: Provides for the new Data for Achievement payment referenced in the explanation of Section 5 below.
3. SECTION 3: ***Sponsor's amendment number SB017507 deletes section 3 from the bill in favor of a more efficient and immediate means of ensuring tax relief under the bill.***
4. SECTION 4: Minor change in accreditation of schools section (20-7-102) to update a statutory reference.
5. SECTION 5: Amends the law on data systems to ensure that there is a focus on bringing useful data to educators and parents to use to enhance instruction and academic performance of students. The intent through subsection 5(b) is to ensure that OPI and the K-12 Data Task Force work to make sure the data system has a module or other capability of "talking to" and/or automatically converting data from other systems already in use in school districts (e.g., Power Schools) and/or by OPI, both so that districts using systems that have all the components sought in this bill will not have to reinvent the wheel and so that districts do not have to repeatedly input the same data multiple times for different elements of the statewide data system as it has existed in the past. There is also a contemplation that OPI and the K-12 Data Task Force will review options available through private companies that may satisfy the specifications and needs for a statewide data system.
6. SECTION 6:
  - a. Provides for statutory calculated inflation for the per-ANB entitlements (0.89% in FY14 and 2.08% in FY15 -- \$20 million biennial fiscal impact in state aid for this increase, higher at BASE and MAX; this will increase spending authority for districts.
  - b. Implements the K-12 Vision Group's per school unit entitlement concept, phased in over two years (\$28.6 million biennial fiscal impact

in state aid, \$11.3 in FY14 and \$17.3 in FY15, higher at BASE and MAX; will increase spending authority for districts) and address larger school system concerns with the one size basic entitlement under current law.

- c. Creates the "Data for Achievement payment" of \$20 per ANB as a new school district general fund component. This should increase funding for schools by approximately \$2.95 million per year, \$5.9 million per biennium.
- d. Creates a new Natural Resource Development K-12 Funding Payment that will be funded with oil and gas revenues previously in the state general fund and with excess interest and income generated off of state lands. The revenue will be a variable funding source distributed as a percentage of BASE funding costs of the Basic and per-ANB entitlements, much in the same manner as currently used to fund direct state aid (DSA).
  - i. ***Sponsor's amendment number SB017507 amends the funding mechanism for tax relief under the Natural Resource Development K-12 Funding Payment. The amendment uses oil and gas revenues from 2 years prior as a means of calculating the amount of state general fund dollars that will be used to fund this payment. This amendment saves \$25 million in fiscal costs in the bill, ensures that tax relief will flow in a stable, known amount each year and provides tax relief starting in FY14 rather than in FY15 as introduced.***
  - ii. ***Sponsor's amendment number SB017508 clarifies that the Natural Resource Development K-12 Funding Payment is on top of rather than in lieu of Direct State Aid. This amendment is offered to address a concern of the Governor's Budget Office.***

7. SECTION 7:

- a. Ensures that school districts that are over maximum can add increases in all general fund payments and entitlements to their prior year's budget. This basically ensures that over max districts will have increased spending authority to implement common core and Chapter 55 rules from the Board of Public Education.
- b. Allows a school district to increase its over-base budget levy without a vote to the extent that the school district decreases other non-voted levies imposed by action of the board of trustees. The authority to maintain the non-voted increase in the over-base levy in future years is decreased to the extent of any subsequent increase in other non-voted levies.

8. SECTION 8: Oil and Natural Gas Revenue Issues as follows:

- a. Provides for local area sharing of oil and gas revenues in concentric circles emanating from the originating source of revenue and impacts, first to the other half of unified districts, then to immediate adjoining districts, then to districts throughout the county, then to districts in contiguous counties, then to all schools statewide (\$16.5 million biennial fiscal impact).
- b. Reduces the amount that school districts have to budget in oil and gas revenues in their general fund to 25% of oil and natural gas revenues received. The language also provides additional flexibility in how this money is allocated, with only 50% of the amount used to reduce the BASE budget and with the remaining 50% available for the over-BASE portion of the budget.
- c. Exempts certain school districts from the obligation to budget in the general fund at all (e.g., districts under \$1 million, districts with low spending, districts with unusual enrollment increases, etc.)
- d. Expands the 130% cap on oil and gas revenues for any district with an unusual enrollment increase approved by OPI, by \$45,000 for each additional ANB (150 square feet per pupil times \$300 per square foot build cost).

9. SECTION 9:

- a. Adds a new count in December to the existing enrollment counts in October and February to gain an additional data point for calculating ANB.
- b. Adds a new provision that allows a district to count students who achieve proficiency on particular classes in fewer hours than what would otherwise be required by the law. This is the “learning is the constant, time is the variable” concept which has been discussed in the K-12 Vision Group in innovating and customizing learning for each student.
- c. Aligns the existing power under current law for the Board of Public Education to be able to pull funding for a school district that loses accreditation with the new blended accreditation model under Chapter 55.

10. SECTION 10: Reduces the threshold for when a school district is entitled to an immediate increase for an unusual enrollment from 6% under current law to the lesser of an increase of 4% or 25 ANB. This change also ensures that schools with unusual enrollment increases will receive funding for all additional ANB rather than just those over the threshold.

11. SECTION 11: Extends the date for when ending fund balance and flex fund limits kick in from 2016 to 2020. This changes the law that was created last session in SB 329.

***NOTE: Sponsor’s amendment number SB017503 adds a new section 12 to align the definition of the basic system of free quality schools with the mechanism for inflation-adjusting the formula. The amendment has the effect of providing for***

*the future calculation of inflation on all general fund entitlements, rather than for just the Basic and Per-ANB entitlements.*

**12. SECTION 12 (Will become Section 13 under Sponsor's amendments):**

Changes the law so that excess interest and income in state land revenues during an interim gets split 50%-50% tax relief and increased spending for schools (distributed using the Quality Educator Payment from excess interest and income in the Guarantee account at the end of each year). To give you an idea regarding how this works, this change, had it been in effect a couple of years ago, would have brought school districts \$40 million in increased spending and \$40 million in district property tax relief when Otter Creek bonus payments were received by the state. ***Sponsor's amendment SB017501 seeks to simplify the definition of what is "excess interest and income" by defining it as anything over \$56 million in any given year.***

**13. SECTION 13 (Will become Section 14 under Sponsor's amendments):**

Amends 20-9-344 to coordinate funding with the Board of Public Education's accreditation standards and to address the distribution of the natural resource development K-12 funding payment and data for achievement payment, which will be distributed in the same manner as other general fund payments.

**14. SECTIONS 14 through 25 (Will become Section 15 through 27 under Sponsor's amendments) are all about adding oil and natural gas revenues as a source of bonding capacity. This is the same change upon which Senator Jones and education advocates collaborated in SB 403 last session. These changes have been reviewed and approved by the state's bond counsel as workable and sound. *Sponsor's amendment SB0175-09 are amendments requested by the State Bond Counsel and OPI.***

**15. SECTION 26 (Will become Section 28 under Sponsor's amendments):**

Allows districts with small amounts of oil and gas revenues, in insufficient amounts to address impacts, to qualify for funds out of the state oil and gas impact account. This section also changes the law so that amounts over \$7.5 million go to the guarantee account for distribution as part of the natural gas K-12 payment rather than to the state general fund.

**16. SECTION 27 (Will become Section 29 under Sponsor's amendments):**

Minor changes to the County Oil and Natural Gas Impact Fund statute to update coordinating statutory references.

**17. SECTION 28 (Will become Section 30 under Sponsor's amendments):**

Purpose of the Guarantee Account is expanded beyond use as BASE aid. ***Sponsor's Amendment SB017507 proposes to simplify the calculation and distribution of tax relief such that subsection (3) of this section is no longer needed, because tax relief will flow directly from the state general fund, similar to the way that block grants are distributed for tax relief under current law. The Sponsor's amendment now proposes to use the Guarantee account as a temporary holding account for excess interest and income from state lands that is devoted to tax relief, so that such funds can be appropriated by the next Legislature and added to the***

***Natural Resource K-12 Funding Payment, which fuels BASE property tax relief under the bill.***

- a. This section also captures and distributes excess interest and income from state lands as referenced earlier in this overview. This money gets split 50%-50%, part for tax relief and part to use for facilities repairs and other items. The portion for increased expenditures is distributed on a per quality educator basis and schools must first use the funds they receive to address any key deficiencies in the school facilities study by the Department of Administration and, once those deficiencies have been addressed, for any other purpose allowed for Flex funds (which is very broad and comparable to any general fund expenditure).
18. SECTION 29 (***Will become Section 31 under Sponsor's amendments***): This important purpose provision specifies that the amounts in this bill that allow school districts to increase their previous year's budget authority above inflation are to be used by school districts to implement common core, changes to Chapter 55 and to otherwise enhance efforts at improving academic achievement for students in our public schools. The funding in this bill is at least \$36 million higher than inflation over the biennium, without taking into account any amounts that might be distributed to schools as excess state land revenues over the coming biennium.
19. SECTION 30 (***Will become Section 32 under Sponsor's amendments***): This section provides for the distribution of oil and gas revenues from OPI to school districts from the state school oil and natural gas distribution account.
20. SECTION 31 (***Will become Section 33 under Sponsor's amendments***): Extends termination dates from SB 329, 2011 Session, from 2016 to 2020 to give the new oil and natural gas distribution system time to work before it is reviewed in 2020.
21. Section 32 is proposed to be repealed under ***Sponsor's Amendment SB017507 in favor of a more efficient and immediate means of ensuring tax relief under the bill. Through technical advice from the Legislative Fiscal Division as requested by the Sponsor, we have identified a way to reduce the fiscal cost of the bill by \$25 million while maximizing the tax relief. As such, a one time transfer of FY13 funds is no longer necessary to advance tax relief under the bill.***
22. Remaining provisions are standard codification instructions, applicability clauses, and effective dates. ***Note that Sponsor's Amendment SB017507 eliminates retroactive applicability of oil and gas provisions, which was originally needed to fuel tax relief but which is now otherwise addressed in the bill.***